

# BANK & TRUST DIVISION



Donald P. Mann  
Deputy Commissioner

Carolyn E. Such  
Secretary to Deputy  
Commissioner

William L. Pilkington  
Assistant Director,  
Examination Unit

Allie M. Jones  
Secretary to  
Assistant Director

Darwyn V. Sanborn  
Assistant Director,  
Corporate Regulatory  
Services Unit

Cathy J. Marolf  
Secretary to  
Assistant Director

Steven D. Cutshaw  
Corporate Specialist

Linda K. Hansen  
Corporate Specialist

Sandra I. Slee  
Corporate Specialist

## AUTHORITY

The Bank & Trust Division is primarily responsible for regulating and supervising Michigan's state-chartered banks under authority of Act 319 of the Public Acts of 1969 (the Michigan Banking Code of 1969), as amended; savings banks, pursuant to Act 354 of the Public Acts of 1996 (the Michigan Savings Bank Act); and Business and Industrial Development Corporations (BIDCOs), pursuant to Act 89 of the Public Acts of 1986 (the Michigan BIDCO Act). In addition to depository institutions and BIDCOs, the division was previously responsible for examination and supervision of safe deposit and collateral deposit businesses. However, with the passage of the banking code of 1999, this responsibility ceases effective March 1, 2000.

The division ensures that Michigan's state-chartered banks, savings banks, and BIDCOs are operating safely and soundly, that public confidence in the system is maintained, and that the interests of depositors, creditors and shareholders are protected. As of December 31, 1999 there were 140 state-chartered banks with consolidated assets of approximately \$105.4 billion; 7 savings banks with consolidated assets of approximately \$4.3 billion; and 6 BIDCOs with approximately \$58.8 million in consolidated assets.

In addition to the examination and supervision program, the division is responsible for processing applications for new state-chartered financial institutions, approving and facilitating changes in corporate structure, and administering capital augmentation efforts of state-chartered financial institutions. The program ensures that applications for new charters, changes in corporate structure, and capital enhancements are consistent with sound business practices, applicable laws and regulations, and Bureau and Department policies.

## PERSONNEL AND TRAINING

The division, headed by Deputy Commissioner Donald P. Mann, is comprised of well-trained, experienced, professional examiners and office staff. Assistant Director William L. Pilkington oversees examination and supervision activities, with a staff of five supervisors and 34 field examiners. Assistant Director Darwyn V. Sanborn oversees corporate activities, with a staff of three corporate specialists.

During 1999, every member of the division's staff attended at least one training and/or professional development class or seminar. Areas of training included Year 2000 (Y2K), trust, capital markets, lending, risk management, international banking, white collar crime, and emerging issues affecting community and multinational banking. Several division examiners also attended graduate schools of banking held at various universities.

On April 28, 1986, the division received recognition of its competence and capability when it became accredited under the Conference of State Bank Supervisors' (CSBS) Accreditation Program. The division was among the first state banking agencies to receive accreditation. The division was re-accredited on February 9, 1993, and again on June 8, 1998.

## EXAMINATION AND SUPERVISION

The Michigan Banking Code of 1969 and the Michigan Savings Bank Act require that

each state-chartered bank and savings bank receive an annual examination. In fulfilling this requirement, the Bureau may use an examination made pursuant to the Federal Reserve Act or the Federal Deposit Insurance Act. All state-chartered banks, savings banks and BIDCOs were examined at least once during 1999 by representatives of either the division, the Federal Deposit Insurance Corporation, or the Federal Reserve Banks of Chicago or Minneapolis. The division also conducted 19 trust examinations and made 68 on-site visitations. As of December 31, 1999, there were two (2) banks on the division's "problem bank" list; no savings banks on the "problem" list; and one (1) BIDCO on the "problem" list.

The Bank & Trust Division continued employing risk-based supervisory strategies in 1999. All banks were monitored quarterly through review of uniform bank performance reports, other call report generated information, and specifically requested data. New institutions, problem institutions, and institutions with volatile risk profiles received quarterly visitations.

Large and higher risk institutions were generally reviewed jointly or concurrently with the federal agencies. Regardless of the nature of examination, examination results were shared between agencies and comprehensive supervisory strategies were jointly developed and employed.

Pre-examination request letters were tailored to information needs determined by

the Examiner-In-Charge in assessing each institution's risk profile. At the conclusion of each examination, examiners met with senior management to review findings. As necessary or requested, division management and examiners-in-charge met with Boards of Directors to review examination findings and determine appropriate management action.

## YEAR 2000

Throughout 1999, the division, in cooperation with various federal agencies, engaged in assessing the Y2K preparedness of Michigan's state-chartered banks, savings banks and BIDCOs. Division personnel participated in periodic meetings with representatives of the FDIC, the Federal Reserve Banks of Chicago and Minneapolis, and the Comptroller of the Currency to discuss and plan Y2K initiatives. All institutions under supervision were prepared for the century date change, and there were no disruptions in financial services.

## CORPORATE CHANGES

As of December 31, 1999, there were 176 commercial banks operating in the State of Michigan; 140 or 79.5% of which were state-chartered banks. In addition to commercial banks, there were 23 savings banks and/or savings and loan associations operating in Michigan at year-end; seven (7), or 30.4% were state-chartered. During 1999 seven (7) new banks were chartered, reflecting a 5.3% increase in the number of state-chartered banks. In addi-

tion to the de novo bank activity, three (3) federal savings banks converted to state-charter, resulting in a 40% increase in the number of state-chartered savings banks.

## INDUSTRY ASSOCIATIONS

The division has had a long standing relationship with various trade associations, including the Michigan Bankers Association (MBA), the Michigan Association of Community Bankers (MACB), the Michigan League of Community Bankers (Michigan League) and the Conference of State Bank Supervisors (CSBS). Division personnel have attended numerous industry-related functions during 1999. Division representatives have also spoken at various trade association functions on a variety of topics affecting the industry, including presentations at the Robert M. Perry Schools of Banking at Central Michigan University. Additionally, division personnel, along with senior Bureau management regularly attend the MBA annual convention and bank management conference; the MACB annual convention; the Michigan League annual convention; and the CSBS annual meeting and deputy seminars.

## FINANCIAL TRENDS

As of year-end 1999, state-chartered commercial banks posted total consolidated assets of \$105.4 billion, representing a 5.9% increase over year-end 1998 totals. State-chartered savings banks posted total consolidated assets of \$4.3 billion. Asset quality at commercial and savings

banks remained good. Total past due loans for commercial and savings banks amounted to \$1.4 billion, or 1.7% of total loans, while net loan losses amounted to only 0.3% of total loans.

Michigan's commercial banks and savings banks continue to benefit from prudent management and a strong economic environment. As of year-end 1999 net consolidated income for state-chartered commercial banks amounted to \$1.6 billion, a 16.8% increase over year-end 1998 totals. The aggregate return on average assets for state-chartered commercial banks was 1.59%. State-chartered savings banks reported an aggregate net income of \$18 million for 1999, representing a 41.9% decrease over year-end 1998 totals. The aggregate return on average assets for savings banks was 0.45%.

Aggregate equity capital in Michigan's state-chartered banks and savings banks amounted to \$8.8 billion and \$343 million, respectively. This represents a 7% increase over year-end 1998 totals for commercial banks, and a 46% increase for savings institutions.

As of December 31, 1999, BIDCOs posted total consolidated assets of \$58.8 million, representing a 25.7% decrease from year-end 1998 totals. There were 136 total provisions of financing assistance out-

standing at year-end 1999, reflecting a 26.5% decrease over year-end 1998 totals.

## LOOKING FORWARD

During 2000, the division will continue to provide the highest quality service to the industries we regulate. Division personnel are executing plans for risk-based supervision in 2000 and beyond. The alternating examination program will continue and traditional safety and soundness examinations will be streamlined for institutions that perform well and are financially sound.

Every bank, trust department, savings bank, and BIDCO has been assigned to individual examiners. These examiners, called Central Points of Contact (CPC), will be responsible for coordinating the regulatory oversight of a portfolio of two to eight institutions. Managers of financial institutions regulated by the division should familiarize themselves with the CPC of their institution. The CPC concept will provide directors and officers a consistent and familiar regulatory contact responsible for designing a regulatory strategy based on the risk profile of each institution.

## INTERNET ACCESS

Further information regarding division services may be found on the Bureau's internet site at <http://www.cis.state.mi.us/fib/>.

## CONSOLIDATED BALANCE SHEET OF STATE BANKS AS OF DECEMBER 31 (IN MILLIONS)

	140 Banks December 31, 1999	133 Banks December 31, 1998	Percentage Increase (Decrease)
<b>ASSETS</b>			
Cash and balances due from depository institutions	\$ 4,622	\$ 5,395	(14.33%)
Securities	14,541	14,280	1.83%
Federal funds sold and securities purchased under agreements to resell	1,204	1,541	(21.87%)
Net loans and leases	79,419	72,785	9.11%
Assets held in trading accounts	72	498	(85.54%)
Premises and fixed assets (including capitalized leases)	1,330	1,295	2.70%
Other real estate owned	54	43	25.58%
Investments in unconsolidated subsidiaries and associated companies	55	57	(3.51%)
Customers' liability on acceptances executed and outstanding	50	24	108.33%
Other assets (incl. Intangibles)	4,038	3,641	10.90%
Total Assets	\$105,385	\$ 99,559	5.85%
<b>LIABILITIES</b>			
Total deposits	\$ 74,641	\$ 73,732	1.23%
Federal funds purchased and securities sold under agreements to repurchase	4,488	7,204	(37.70%)
Other Borrowed money with maturities of less than 1 year	11,281	4,379	157.62%
Other borrowed money with maturities of more than 1 year	2,578	2,927	(11.92%)
Notes and debentures subordinated to deposits	1,799	1,811	(0.66%)
Acceptances and Other liabilities	1,763	1,252	40.81%
Total Liabilities	\$ 96,550	\$ 91,305	5.74%
<b>EQUITY CAPITAL</b>			
Perpetual preferred stock	\$ 5	\$ 5	N/C
Common stock	483	475	1.68%
Surplus	3,616	3,261	10.89%
Undivided profits and capital reserves	4,731	4,513	4.83%
Total Equity Capital	\$8,835	\$8,254	7.04%
Total Liabilities and Equity Capital	\$105,385	\$ 99,559	5.85%



# CONSOLIDATED STATEMENT OF INCOME OF STATE BANKS

## YEAR ENDED DECEMBER 31 (IN MILLIONS)

### SOURCES AND DISPOSITION OF INCOME

	1999	1998	Percentage Increase (Decrease)
<b>INTEREST INCOME:</b>			
Interest and fee income on loans	\$ 6,377	\$5,960	7.00%
Interest income on balances due from depository institutions	7	8	(12.50%)
Interest and dividend income on securities	976	919	6.20%
Interest income from assets held in trading accounts	2	2	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	88	91	(3.30%)
Total interest income	\$ 7,450	\$6,980	6.73%
<b>INTEREST EXPENSES:</b>			
Interest on deposits	\$ 2,297	\$2,328	(1.33%)
Expense of federal funds purchased and securities sold under agreements to repurchase	331	286	15.73%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	560	505	10.89%
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	111	95	16.84%
Total interest expense	\$ 3,299	\$3,214	2.64%
Net interest income	\$ 4,151	\$3,766	20.45%
LESS: Provision for loan and lease losses	237	253	(6.32%)
Noninterest income	2,181	1,902	14.67%
Gains (losses) on securities not held in trading accounts	7	25	(72.00%)
<b>NONINTEREST EXPENSES</b>			
	\$ 3,563	\$3,353	6.26%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 2,539	\$2,087	21.66%
LESS: Applicable income taxes	909	697	30.42%
Income (loss) before extraordinary items and other adjustments	1,630	1,390	17.27%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 1,630	\$1,390	17.27%

## CONSOLIDATED BALANCE SHEET OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

	7 Savings Banks December 31, 1999	5 Savings Banks December 31, 1998	Percentage Increase (Decrease)
<b>ASSETS</b>			
Cash and balances due from depository institutions	\$ 251	\$ 100	151.00%
Securities	317	193	64.25%
Federal funds sold and securities purchased under agreements to resell	97	0	970.00%
Net loans and leases	3,498	2,487	40.65%
Assets held in trading accounts	0	0	N/C
Premises and fixed assets (including capitalized leases)	63	45	40.00%
Other real estate owned	3	2	50.00%
Investments in unconsolidated subsidiaries and associated companies	16	0	160.00%
Customers' liability on acceptances executed and outstanding	0	0	N/C
Other assets (incl. Intangibles)	69	45	53.33%
Total Assets	\$4,314	\$ 2,872	50.21%
<b>LIABILITIES</b>			
Total deposits	\$3,041	\$ 2,116	43.71%
Federal funds purchased and securities sold under agreements to repurchase	4	2	100.00%
Other borrowed money with maturities of less than 1 year	488	194	151.55%
Other borrowed money with maturities of more than 1 year	402	303	32.67%
Notes and debentures subordinated to deposits	0	0	N/C
Acceptances and Other liabilities	36	22	63.64%
Total Liabilities	\$3,971	\$ 2,637	50.59%
<b>EQUITY CAPITAL</b>			
Perpetual preferred stock	\$ 29	\$ 0	290.00%
Common stock	3	1	200.00%
Surplus	153	118	29.66%
Undivided profits and capital reserves	158	116	36.21%
Total Equity Capital	\$ 343	\$ 235	45.96%
Total Liabilities and Equity Capital	\$4,314	\$ 2,872	50.21%

# CONSOLIDATED STATEMENT OF INCOME OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

## SOURCES AND DISPOSITION OF INCOME

	1999	1998	Percentage Increase (Decrease)
<b>INTEREST INCOME:</b>			
Interest and fee income on loans	\$ 271	\$ 195	38.97%
Interest from lease financing receivables	0	0	N/C
Interest income on balances due from depository institutions	2	3	(33.33%)
Interest and dividend income on securities	38	12	216.67%
Interest income from assets held in trading accounts	0	0	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	1	0	100.00%
Total interest income	\$ 312	\$ 210	48.57%
<b>INTEREST EXPENSES:</b>			
Interest on deposits	\$ 122	\$ 91	34.07%
Expense of federal funds purchased and securities sold under agreements to repurchase	1	0	100.00%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	50	28	78.57%
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	0	0	N/C
Total interest expense	\$ 173	\$ 119	45.38%
Net interest income	\$ 139	\$ 91	52.75%
LESS: Provision for loan and lease losses	13	3	333.33%
Noninterest income	35	29	20.69%
Gains (losses) on securities not held in trading accounts	- 8	7	(214.29%)
<b>NONINTEREST EXPENSES</b>			
	\$ 128	\$ 76	68.42%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 25	\$ 48	(47.92%)
LESS: Applicable income taxes	7	17	(58.82%)
Income (loss) before extraordinary items and other adjustments	18	31	(41.94%)
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 18	\$ 31	(41.94%)



## BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS (BIDCOs)

	12/31/99	12/31/98
Licensees	7	8
Licensees Examined	7	8
Provisions of financing assistance to agriculture firms	0	0
Financing assistance to agriculture firms	0	0
Provisions of financing assistance to mining firms	0	1
Financing assistance to mining firms	0	0
Provisions of financing assistance to construction businesses	0	0
Financing assistance to construction businesses		
Provisions of financing assistance to manufacturing businesses	5	19
Financing assistance to manufacturing business	\$ 2,630,000	\$ 7,206,264
Provisions of financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	1	0
Financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	\$ 400,000	0
Provisions of financing assistance to wholesale trade businesses	0	3
Financing assistance to wholesale trade businesses	0	\$ 1,700,000
Provisions of financing assistance to retail trade businesses	0	3
Financing assistance to retail trade businesses	0	\$ 720,000
Provisions of financing assistance to finance, insurance and real estate businesses	0	2
Financing assistance to finance, insurance, and real estate businesses	0	\$ 1,300,000
Provisions of financing assistance to service businesses	1	12
Financing assistance to service businesses	\$ 150,000	\$ 7,635,000
Provisions of financing assistance to nonclassifiable establishments	0	1
Financing assistance to nonclassifiable establishments	0	\$ 328,000
Total financings for period	7	40
Total financing assistance for the period	\$ 3,180,000	\$ 18,889,264
Total provisions of financing assistance currently outstanding or committed	136	185
Total financing assistance currently outstanding	\$50,095,896	\$ 72,590,520
Provisions of financing assistance to minority-owned business firms	0	2
Financing assistance to minority-owned business firms	0	\$ 1,450,000
Provisions of financing assistance to women-owned business firms	0	0
Financing assistance to women-owned business firms	0	0
Estimated number of jobs created or retained*	196	1,184

\*Estimates provided by licensees.

# 1999 BANK AND TRUST DIVISION

## REGIONS AND FIELD PERSONNEL

### EAST REGION

Gary L. Thielsen, Regional Supervisor  
Thomas J. Battle  
Kathleen M. Billmeier  
James H. Brown II  
C. Terry Callahan  
Roger A. Lonsway  
Shelley L. McCarthy  
Kevin J. Pantera  
John Schumacher  
Susan A. Stieber  
Chris Werwega

### CENTRAL REGION

Curtis B. McMillin, Regional Supervisor  
Robert G. Caruso  
Gail A. Donovan  
Patrick A. Holleran  
Kirt L. Gundry  
John J. Kolhoff  
Karen K. Lawson  
Patrick J. Lynch  
Kathleen M. McDevitt  
Charles J. Scott

### WEST REGION

Stephen F. Trembath, Regional Supervisor  
Rae L. Farris  
Connie Gorsline  
Donald J. Hermann  
Karl J. Johnson  
Charlie L. Kohler  
Michael E. Mead  
Bruce Ohland  
Peter R. Oquist  
Judy I. Ritter  
Sheila J. Vigh

### UPPER PENINSULA REGION

Gary D. Groves, Regional Supervisor  
John M. Lyle  
David J. Theoret  
Larry Wuokko

### TRUST ACTIVITIES UNIT

Michael J. Anderson, Supervisor  
Walter P. Baier  
Michael J. Friedrich